SGI CANADA

Quarterly Report

September 2012

CORPORATE PROFILE

Mission

We're your insurance company, offering protection that benefits you, your family and your community.

Vision

To be a company where every customer, employee, owner and business partner across Canada is proud to do business and work with us.

Values

Integrity	Conducting ourselves with honesty, trust and fairness.
Caring	Acting with empathy, courtesy and respect.
Innovation	Implementing creative solutions to achieve our vision.

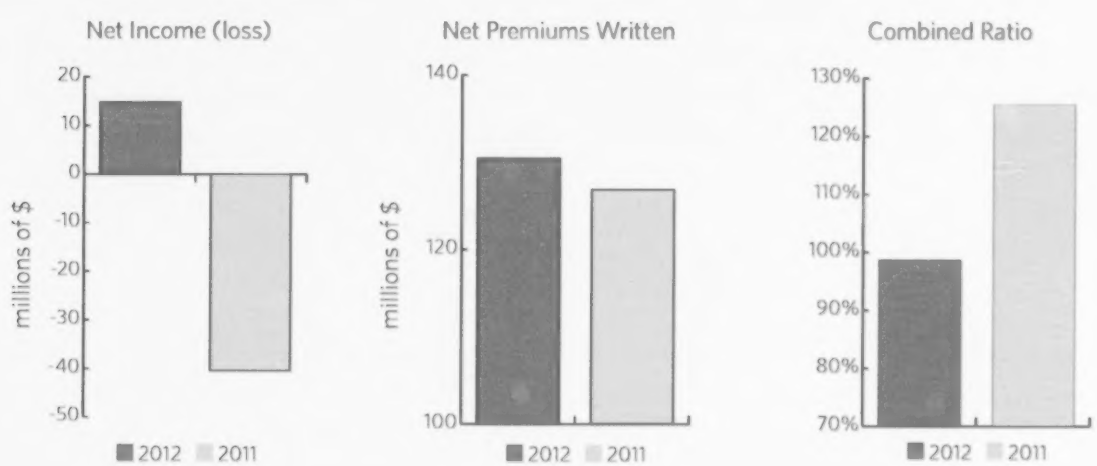
About SGI CANADA

SGI CANADA is a dynamic and innovative company selling property and casualty insurance products. It currently operates as SGI CANADA in Saskatchewan, SGI CANADA Insurance Services Ltd. in Manitoba and Alberta, Coachman Insurance Company in Ontario and the Insurance Company of Prince Edward Island in Prince Edward Island, Nova Scotia and New Brunswick. The company employs about 1,900 people and its head office is located in Regina, Saskatchewan. Products are sold through a network of independent insurance brokers.

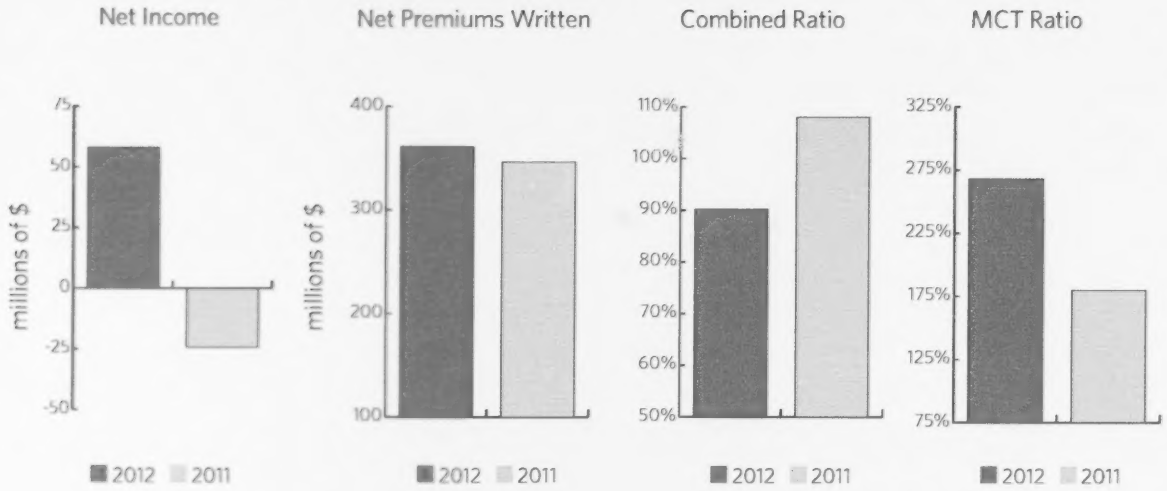
Financial Highlights

For the three months to September 30

For the nine months to September 30



MANAGEMENT'S DISCUSSION AND ANALYSIS



Management's Discussion and Analysis (MD&A) provides a review of the results of the operations of SGI CANADA and its subsidiaries, SGI CANADA Insurance Services Ltd., the Insurance Company of Prince Edward Island and Coachman Insurance Company, collectively referred to as SGI CANADA or the Corporation. This discussion and analysis should be read in conjunction with the SGI CANADA unaudited consolidated financial statements and supporting notes as at and for the nine-month period ended September 30, 2012, and the SGI CANADA MD&A and annual audited financial statements and supporting notes as at and for the year ended December 31, 2011. All dollar amounts are in Canadian dollars. This MD&A reflects all information known to Management up to November 13, 2012.

Overview

	three months to September 30			nine months to September 30		
	2012	2011	Change	2012	2011	Change
			(thousands of Canadian $)			
Net premiums written	130,439	126,882	3,557	360,938	346,624	14,314
Net income (loss)	14,851	(40,543)	55,394	58,037	(24,192)	82,229
Combined ratio	99%	126%	-27%	90%	108%	-18%
Minimum Capital Test				268%	180%	88%

The Corporation has realized strong overall operating results thus far in 2012, following a challenging underwriting year and an unsettled investment market in 2011. Strong underwriting results from all jurisdictions, in combination with improved investment earnings, contributed to the significant turnaround from 2011.

The Corporation continues to experience premium growth with increases in net premiums written in Alberta, Saskatchewan and the Maritimes. The largest growth came from Alberta with a 25.0% increase over the first nine months of 2011. Net income has improved due to stronger underwriting results for the first nine months of 2012, compared to 2011. All jurisdictions have seen improved claim results, as indicated by lower loss ratios, as well as strong investment earnings compared to the prior year.

The Corporation continues to be adequately capitalized, with a Minimum Capital Test (MCT) score of 268% at September 30, 2012.

Outlook

For the first three quarters in 2012, SGI CANADA has achieved strong underwriting results across all its operating jurisdictions, positioning it well leading into the fourth quarter, which is generally a strong quarter financially. The Corporation remains focused on its insurance operations in all jurisdictions, including maintaining adequate pricing and diligent claims management. A focus on strong underwriting fundamentals and providing outstanding customer service to its brokers remains key to the Corporation's success.

Investment markets experienced significant gains during the third quarter of 2012 with all asset classes rising in value. Year-to-date, investment earnings have recovered significantly over levels experienced during the economic downturn and are now at levels comparable to the previous peak period of 2005 to 2007. The Corporation continues to maintain a relatively short duration in its fixed income portfolio, which better positions it to manage interest rate risk associated with the potential for rising interest rates in the future. While market volatility is still likely in 2012, the Corporation maintains a well diversified, high-quality investment portfolio governed by prudent investment management policies and processes.

Revenue

	three months to September 30			nine months to September 30		
	2012	2011	Change	2012	2011	Change
	(thousands of Canadian $)					
Premiums earned	121,540	114,512	7,028	358,536	330,903	27,633
Investment earnings (loss)	14,443	(12,356)	26,799	28,269	961	27,308

Premium growth in Saskatchewan, Alberta, and the Maritimes resulted in a 8.4% increase in premium earnings for the first nine months of 2012, as noted below:

Premiums written by operating segment

	three months to September 30			nine months to September 30		
	2012	2011	Change	2012	2011	Change
			(thousands of Canadian $)			
Saskatchewan	94,045	91,077	2,968	259,027	246,310	12,717
Alberta and Manitoba	17,219	14,948	2,271	43,718	37,175	6,543
Ontario	12,937	14,865	(1,928)	40,714	46,889	(6,175)
Maritimes	6,238	5,992	246	17,479	16,250	1,229
Net premiums written	130,439	126,882	3,557	360,938	346,624	14,314
Change in unearned premiums	(8,899)	(12,370)	3,471	(2,402)	(15,721)	13,319
Net premiums earned	121,540	114,512	7,028	358,536	330,903	27,633

Net premiums written in Saskatchewan increased 5.2% in the first nine months of 2012 with commercial auto, agro, personal auto and commercial lines contributing the majority of the increase. Alberta and Manitoba operations experienced growth in premiums written of 17.6% in the first nine months of 2012, with strong auto policy growth in Alberta contributing the majority of the increase. The decrease in Ontario premiums written is primarily the result of a decline in auto policies, the majority of which occurred in the first quarter due largely to two significant rate increases being implemented since the end of the first quarter in 2011. Auto policies in force in Ontario have declined 10.1% in 2012. Premiums written in the Maritimes increased 7.6% in the first nine months of 2012 with New Brunswick and Nova Scotia supplying the majority of the increase, a result of increased auto and commercial lines policy writings.

Investment earnings in the third quarter were $26.8 million higher than the same period in 2011, primarily a result of higher equity returns. Equity returns, most notably Canadian, were positive in the quarter as market prices increased. This was partially offset by lower fixed income returns, which were significantly below levels experienced in 2011 when interest rates decreased resulting in significantly higher market value gains on bonds.

Year-to-date investment earnings were $27.3 million higher than the same period in 2011. This was due primarily to positive year-to-date equity returns compared to the negative equity returns experienced during the same period last year. At the same time, relatively stable interest rates generated low, but positive fixed income returns year-to-date, as opposed to the same period last year which saw declining interest rates generate significant market value gains from bonds. Overall, the year-to-date market value rate of return at September 30, 2012, was 3.3%, compared to negative 0.6% for the same period of 2011.

Expenses

	three months to September 30			nine months to September 30		
	2012	2011	Change	2012	2011	Change
	(thousands of Canadian $ - except percentages)					
Claims incurred	75,677	102,204	(26,527)	191,865	234,220	(42,355)
Other expenses	44,328	41,478	2,850	131,585	123,211	8,374
	120,005	143,682	(23,677)	323,450	357,431	(33,981)
Loss ratio	62.3%	89.3%	-27.0%	53.5%	70.8%	-17.3%

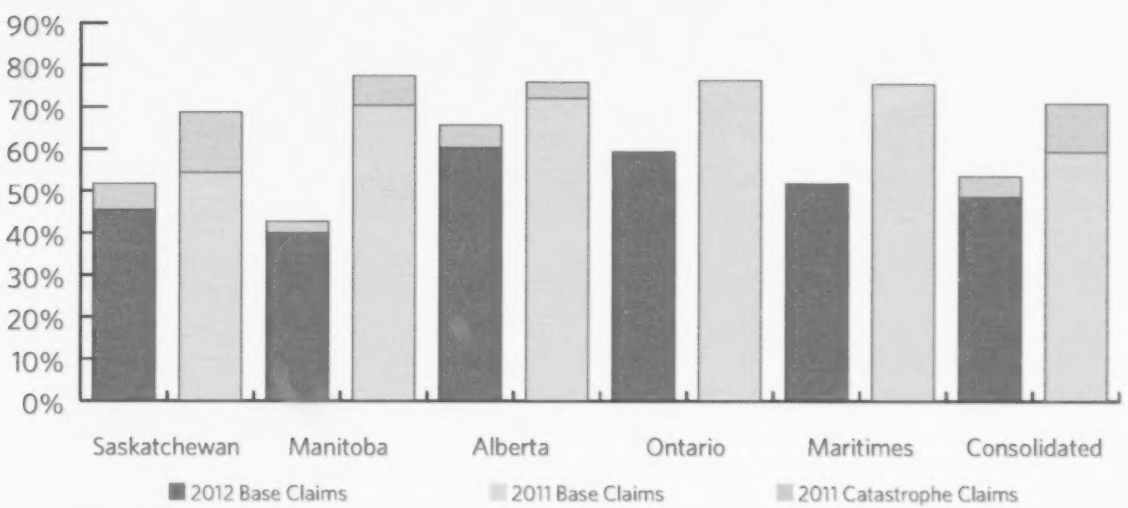
Expenses are comprised of claims incurred and other expenses, which include commissions, premium taxes, administrative expenses and the Corporation's share from participation in the Facility Association.

Claims incurred

Overall, claims incurred totalled $191.9 million for the first nine months of 2012, a decrease of 18.1% from 2011. All jurisdictions posted better loss ratios than 2011, resulting in the consolidated loss ratio decreasing to 53.5%, compared to 70.8% in 2011.

The following chart summarizes loss ratios by jurisdiction for the first nine months of 2012:

Loss Ratios – nine months to September 30



Saskatchewan's loss ratio of 51.7% is lower than last year's nine month loss ratio of 68.7%, due to the combination of lower loss ratios across all lines of business, most notably personal lines, and lower summer storm claim costs. Summer storm activity to the end of September has resulted in an estimated $15.9 million of claims, compared to $32.9 million over the same period in 2011. As well, personal lines improved due to a lower number of claims and fewer large losses.

Manitoba's loss ratio decreased to 43.2% from 77.5% in 2011, due to a lower number of claims and the absence of large losses compared to the prior year.

Alberta's loss ratio decreased to 65.7% from 76.0% in 2011, as a result of favourable development on prior year claims and the absence of large commercial line losses compared to the prior year.

The Ontario loss ratio decreased to 59.4% from 76.4% in 2011, with improvements in the loss ratios across all lines of business. Auto claim costs declined due to lower injury claim costs, while personal and commercial lines have improved due to a lower number of claims and fewer large losses.

The Maritimes loss ratio decreased to 51.8% from 75.5% in 2011, due primarily to improved personal lines claim costs as a result of fewer claims.

Other expenses

For the third quarter, other expenses increased $2.9 million compared to the same period in 2011. The increase was due primarily to a $2.1 million increase in commissions and premium taxes, a result of the premium growth experienced in the quarter.

For the first nine months of 2012, other expenses increased by $8.4 million or 6.8% from 2011. The increase was due to higher commissions and premium taxes, which generally grow commensurate with premium growth. Also, administrative expenses increased $4.0 million due to higher salaries and benefits, depreciation and systems costs.

Balance Sheet Review

	September 30 2012	December 31 2011	Change
	(thousands of Canadian $)		
Total assets	**1,057,514**	**981,848**	**75,666**
Key asset account changes:			
Cash and cash equivalents	17,723	39,365	(21,642)
Investments	723,889	632,332	91,557
Unpaid claims recoverable from reinsurers	44,932	54,600	(9,668)
Reinsurers' share of unearned premiums	16,949	11,079	5,870

The decline in cash and cash equivalents is discussed in the Cash Flow and Liquidity section that follows. The carrying value of investments increased by $91.6 million, reflecting long-term investment purchases made from both the investment of cash from operations, as well as cash and cash equivalent securities. Unpaid claims recoverable from reinsurers decreased as amounts continue to be recovered related to prior year storms. Also, there were fewer storm claim costs ceded in 2012, compared to the prior year. Reinsurers' share of unearned premiums are higher than at the end of 2011 as most annual reinsurance contracts are written during the first quarter of the year, and earned over the remainder of the year.

	September 30 2012	December 31 2011	Change
	(thousands of Canadian $)		
Total liabilities	**755,181**	**725,788**	**29,393**
Key liability account changes:			
Accounts payable and accrued liabilities	62,877	52,671	10,206
Dividends payable	5,093	-	5,093
Premium taxes payable	15,307	20,061	(4,754)
Unearned premiums	273,198	264,926	8,272
Provision for unpaid claims	384,501	374,059	10,442

Accounts payable and accrued liabilities increased, largely due to intercompany amounts payable to the Auto Fund, which were paid in October. The dividend payable is based on the Corporation's dividend policy. In 2011, the MCT fell below the policy's target range of 250%; therefore no dividend was paid in 2011. Premium taxes payable decreased as the current balance relates to an accrual for nine months of taxes, while the comparative balance represents an accrual for the entire preceding year. The increase in unearned premiums is reflective of the premium growth. The provision for unpaid claims increased due to summer storm claims, of which many remain unpaid at September 30, 2012.

	September 30 2012	December 31 2011	Change
	(thousands of Canadian $)		
Total equity	**302,333**	**256,060**	**46,273**
Key equity account changes:			
Retained earnings	219,504	173,710	45,794

The increase in retained earnings is attributable to the $58.0 million consolidated net income (excluding non-controlling interest) offset by dividends declared of $10.0 million, and an other comprehensive loss of $1.8 million. The other comprehensive loss represents actuarial losses associated with the Corporation's defined benefit pension and service recognition plans, related primarily to lower than anticipated investment returns.

Cash Flow and Liquidity

	three months to September 30			nine months to September 30		
	2012	2011	Change	2012	2011	Change
	(thousands of Canadian $)					
Operating activities	41,542	38,204	3,338	66,168	60,028	6,140
Investing activities	(47,585)	(10,629)	(36,956)	(82,896)	(30,380)	(52,516)
Financing activities	(4,914)	–	(4,914)	(4,914)	(23,552)	18,638
Net cash flow	(10,957)	27,575	(38,532)	(21,642)	6,096	(27,738)

The third quarter generated strong operating cash flows of $41.5 million largely from the continued growth in policies written across most jurisdictions. There was $47.6 million reinvested into long-term investments.

On a year-to-date basis, positive operating cash flows were generated in both 2012 and 2011. In addition to the positive cash generated, cash was drawn down during the first nine months of 2012 by $21.6 million to fund purchases of long term investments of $82.9 million and dividend payments of $4.9 million.

Capital

	as at September 30	
	2012	2011
Minimum Capital Test	268%	180%

The Corporation uses a common industry measurement, the Minimum Capital Test (MCT), to monitor its capital adequacy. At September 30, 2012, the Corporation's MCT was 268% (December 31, 2011 - 222%), which is in excess of the 150% minimum regulatory target. For further information on capital management, refer to note 7 of the notes to the consolidated financial statements for the quarter.

Quarterly Consolidated Financial Highlights

The following table highlights quarter-over-quarter results for SGI CANADA:

	2012			2011			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	(thousands of Canadian $)						
Net premiums earned	121,540	119,290	117,706	118,161	114,512	109,338	107,053
Claims incurred	75,677	68,250	47,938	56,420	102,204	76,710	55,306
Net income (loss)	14,851	3,497	39,689	24,633	(40,543)	(4,591)	20,942
Cash flow from (used in) operations	41,542	41,170	(16,544)	24,759	38,204	22,720	(896)
Investments	723,889	669,056	651,538	632,332	603,970	612,336	585,076
Provision for unpaid claims	384,501	371,603	358,790	374,059	388,784	344,388	312,852
Minimum Capital Test	268%	269%	280%	222%	180%	232%	258%

The following points are intended to assist the reader in analyzing trends in the quarterly financial highlights for 2012:

- Net premiums earned generally increase on a quarter-over-quarter basis during the year.
- The first quarter generally experiences lower claims incurred compared to the rest of the year. Claims incurred can be high in the second and third quarters as a result of the summer storm season.
- With the exception of the first quarter, the Corporation generates positive cash flow from operations. Cash is typically low in the first quarter as the Corporation pays its annual premium taxes to the province in March. Operating cash flows are generally strong throughout the remaining nine months of the year and during these months excess cash generated is directed to investments.

Risk Management

Understanding and managing risk is fundamental to the Corporation's success. Risks that the Corporation manages in order to reduce the impact on its operations and profitability include significant privacy breaches, competition, catastrophic claim losses, responsiveness to business needs, transfer and acquisition of expertise, systems security, broker partnership, product design and pricing, leadership and market value losses. These risks are described in detail in the Corporation's 2011 Annual Report.

Accounting Matters

Critical accounting estimates and assumptions

There are no new critical accounting estimates or assumptions as compared to those discussed in the Corporation's 2011 Annual Report.

New accounting standards

There are no new accounting standards as compared to those discussed in the Corporation's 2011 Annual Report.

Related party transactions

There have been no material changes to the Corporation's related party arrangements during the quarter. For further details on the Corporation's related party arrangements, refer to the 2011 Annual Report.

Off balance sheet arrangements

SGI CANADA, in its normal course of operations, enters into certain transactions that are not required to be recorded on its Consolidated Statement of Financial Position, commonly referred to as the balance sheet. These items include litigation, structured settlements and a long-term telecommunications contract. There have been no new off balance sheet arrangements during the quarter. For further details on off balance sheet arrangements, refer to the 2011 Annual Report.

Future accounting policy changes

The following future changes to accounting standards will have applicability to the Corporation:

Insurance Contracts

International Accounting Standards Board (IASB) issued exposure draft ED/2010/8 Insurance Contracts (the ED) on July 30, 2010. The ED proposes a new standard on accounting for insurance contracts, which would replace IFRS 4, *Insurance Contracts*. The proposals represent the first comprehensive IFRS accounting model for insurance contracts and are expected to have a significant impact on the financial reporting of insurers. The IASB plans to issue a re-exposure document in the first half of 2013, with implementation not expected before 2016.

Financial Instruments

IFRS 9, *Financial Instruments*, was issued in November 2009 and modifies previous standard IAS 39, *Financial Instruments: Recognition and Measurement*. The new standard requires financial instruments to be measured at either fair value or amortized cost. Under the new standard, the existing categories for available for sale, held to maturity, and loans and receivables will be eliminated.

Equities will have the option to be designated as fair value through other comprehensive income, similar to the current available for sale designation; except that realized gains or losses would remain in accumulated other comprehensive income and impairment decisions would not be required. A fair value option (fair value through income, consistent with held for trading) will continue to be available on the condition that accounting mismatches are reduced.

The current standard requires adoption by January 2015, which has been deferred from the original adoption date of January 2013. While early adoption is permitted under the standard, the Office of the Superintendent of Financial Institutions (OSFI) has indicated that early adoption is not allowed. While the Corporation is not federally regulated, it generally follows OSFI's guidance in such matters.

Fair Value Measurement

In May 2011, the IASB published IFRS 13, *Fair Value Measurement*. IFRS 13 replaces the fair value measurement guidance contained in various standards with a single source of fair value measurement guidance. This standard may impact the measurement of fair value for certain assets and liabilities as well as the associated disclosures.

IFRS 13 is applicable prospectively for annual periods beginning on or after January 1, 2013. Earlier application is permitted with disclosure of that fact. This standard is not expected to have an impact on the measurement of fair value of the Corporation's assets and liabilities; however, it may impact certain disclosures. The Corporation is in the process of assessing this impact.

Caution Regarding Forward-Looking Statements

Forward-looking statements include statements regarding SGI CANADA's objectives and strategies, and its ability to achieve them. Forward-looking statements are based on estimations and assumptions made by the Corporation in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors it believes are relevant in the circumstances. SGI CANADA deems that the assumptions built into the forward-looking statements are plausible; however, undue reliance should not be placed on the Corporation's forward-looking statements, which only apply as of the date of this MD&A document.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	September 30 2012 (unaudited)	December 31 2011 (audited)
	(thousands of Canadian $)	
Assets		
Cash and cash equivalents	$ 17,723	$ 39,365
Accounts receivable	152,477	145,250
Investments under security lending program (note 4)	50,710	115,451
Investments (note 4)	673,179	516,881
Unpaid claims recoverable from reinsurers	44,932	54,600
Reinsurers' share of unearned premiums	16,949	11,079
Deferred policy acquisition costs	64,465	61,325
Property and equipment	30,726	32,087
Other assets	2,050	1,662
Deferred tax asset	4,303	4,148
	$ 1,057,514	$ 981,848
Liabilities		
Accounts payable and accrued liabilities	$ 62,877	$ 52,671
Dividends payable	5,093	-
Premium taxes payable	15,307	20,061
Amounts due to reinsurers	9,580	9,477
Unearned reinsurance commissions	3,631	3,532
Unearned premiums	273,198	264,926
Provision for unpaid claims	384,501	374,059
Deferred tax liability	994	1,062
	755,181	725,788
Province of Saskatchewan's equity		
Equity advances	80,000	80,000
Retained earnings	219,504	173,710
	299,504	253,710
Non-controlling interest	2,829	2,350
Total equity	**302,333**	256,060
	$ 1,057,514	$ 981,848

(see accompanying notes)

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

for the periods ended September 30, 2012 and 2011

	three months to September 30		nine months to September 30	
	2012 (unaudited)	2011 (unaudited)	**2012** (unaudited)	2011 (unaudited)
	(thousands of Canadian $)			
Gross premiums written	$ 141,674	$ 135,923	$ 395,424	$ 380,765
Premiums written ceded to reinsurers	(11,235)	(9,041)	(34,486)	(34,141)
Net premiums written	130,439	126,882	360,938	346,624
Change in net unearned premiums	(8,899)	(12,370)	(2,402)	(15,721)
Net premiums earned	**121,540**	114,512	**358,536**	330,903
Claims incurred	75,677	102,204	191,865	234,220
Commissions	24,672	22,723	71,784	68,545
Administrative expenses	14,136	13,313	42,767	38,751
Premium taxes	5,681	5,392	16,761	15,637
Facility Association participation (note 10)	(161)	50	273	278
Total claims and expenses	**120,005**	143,682	**323,450**	357,431
Underwriting profit (loss)	**1,535**	(29,170)	**35,086**	(26,528)
Investment earnings (loss) (note 5)	14,443	(12,356)	28,269	961
Income (loss) before income taxes	**15,978**	(41,526)	**63,355**	(25,567)
Income tax expense (recovery)	1,127	(983)	5,318	(1,375)
Net income (loss)	**14,851**	(40,543)	**58,037**	(24,192)
Other comprehensive loss	(682)	(4,066)	(1,757)	(4,314)
Comprehensive income (loss)	**$ 14,169**	$ (44,609)	**$ 56,280**	$ (28,506)
Attributable to:				
The Province of Saskatchewan	13,999	(44,511)	55,801	(28,303)
Non-controlling interest	170	(98)	479	(203)
	$ 14,169	$ (44,609)	**$ 56,280**	$ (28,506)

(see accompanying notes)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the periods ended

	Equity Advances	Retained Earnings	Province of Saskatchewan's Equity	Non-Controlling Interest	Total Equity
			(thousands of Canadian $)		
Balance as at December 31, 2010 (audited)	$ 80,000	$ 178,129	$ 258,129	$ 2,428	$ 260,557
Net loss for the nine-month period ended September 30, 2011	–	(23,989)	(23,989)	(203)	(24,192)
Other comprehensive loss for the nine-month period ended September 30, 2011	–	(4,314)	(4,314)	–	(4,314)
Dividends	–	(16,180)	(16,180)	–	(16,180)
Balance as at September 30, 2011 (unaudited)	80,000	133,646	213,646	2,225	215,871
Net income for the three-month period from October 1, 2011 to December 31, 2011	–	24,508	24,508	125	24,633
Other comprehensive loss for the three-month period ended December 31, 2011	–	(624)	(624)	–	(624)
Dividends	–	16,180	16,180	–	16,180
Balance as at December 31, 2011 (audited)	80,000	173,710	253,710	2,350	256,060
Net income for the nine-month period ended September 30, 2012	–	57,558	57,558	479	58,037
Other comprehensive loss for the nine-month period ended September 30, 2012	–	(1,757)	(1,757)	–	(1,757)
Dividends	–	(10,007)	(10,007)	–	(10,007)
Balance as at September 30, 2012 (unaudited)	$ 80,000	$ 219,504	$ 299,504	$ 2,829	$ 302,333

(see accompanying notes)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the periods ended September 30, 2012 and 2011

	three months to September 30		nine months to September 30	
	2012 (unaudited)	2011 (unaudited)	**2012** (unaudited)	2011 (unaudited)
	(thousands of Canadian $)			
Cash provided by (used for):				
Operating activities				
Net income (loss)	$ 14,851	$ (40,543)	$ 58,037	$ (24,192)
Non-cash items:				
Bond amortization	807	863	2,440	2,524
Depreciation	1,162	875	3,424	2,337
Net realized loss on sale of investments	(1,751)	(2,208)	(1,512)	(9,647)
Actuarial loss on employee benefit plans	(682)	(4,066)	(1,757)	(4,314)
Net unrealized (gain) loss on change in market value of investments	(7,543)	19,579	(11,652)	23,352
Deferred income taxes	(127)	(1)	(223)	(500)
Change in non-cash operating items (note 8)	34,825	63,705	17,411	70,468
	41,542	38,204	**66,168**	60,028
Investing activities				
Purchases of investments	(209,545)	(126,478)	(528,550)	(478,366)
Proceeds on sale of investments	163,199	116,610	447,717	449,498
Repayment of capital lease	–	–	–	142
Purchases of property and equipment	(1,239)	(761)	(2,063)	(1,654)
	(47,585)	(10,629)	**(82,896)**	(30,380)
Financing activities				
Dividends paid	(4,914)	–	(4,914)	(23,552)
Increase (decrease) in cash and cash equivalents	**(10,957)**	27,575	**(21,642)**	6,096
Cash and cash equivalents, beginning of period	28,680	6,330	39,365	27,809
Cash and cash equivalents, end of period	**$ 17,723**	$ 33,905	**$ 17,723**	$ 33,905
Supplemental cash flow information:				
Interest received	$ 2,576	$ 2,099	$ 9,453	$ 9,117
Dividends received	$ 624	$ 442	$ 1,685	$ 1,228
Income taxes paid	$ 630	$ 928	$ 2,067	$ 2,761

(see accompanying notes)

September 30, 2012

1. NATURE OF OPERATIONS

Saskatchewan Government Insurance (the Corporation or SGI), which operates under the trade name of SGI CANADA (2260-11th Avenue, Regina, Saskatchewan, Canada), is incorporated, registered and conducts a property and casualty insurance business in the province of Saskatchewan and in other provinces of Canada through its wholly owned subsidiary SGI CANADA Insurance Services Ltd. SGI CANADA Insurance Services Ltd. operates directly in Alberta and Manitoba, in Ontario through its wholly owned subsidiary Coachman Insurance Company (Coachman) and in Prince Edward Island, New Brunswick and Nova Scotia through its 75%-owned subsidiary, the Insurance Company of Prince Edward Island (ICPEI).

In many provinces in Canada, automobile insurance premium rates are regulated by provincial government authorities. Regulation of premium rates is based on claims and other costs of providing insurance coverage, as well as projected profit margins. Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. The Corporation's automobile premiums are subject to rate regulation in Alberta, Ontario, Prince Edward Island, New Brunswick and Nova Scotia and represent approximately 17.9% (December 31, 2011 - 17.1%) of the Corporation's consolidated net premiums earned.

SGI was established as a branch of the Public Service by *The Government of Saskatchewan Act, 1944*, reorganized pursuant to *The Saskatchewan Government Insurance Act, 1946*, and continued under the provisions of *The Saskatchewan Government Insurance Act, 1980*. SGI also acts as administrator of the Saskatchewan Auto Fund under the provisions of *The Automobile Accident Insurance Act*. As a provincial Crown corporation, the Corporation is not subject to federal or provincial income taxes; however, SGI CANADA Insurance Services Ltd., Coachman and ICPEI are subject to federal and provincial income taxes.

As a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), the consolidated financial results of the Corporation are included in the consolidated financial statements of CIC. CIC is ultimately owned by the Government of Saskatchewan.

2. BASIS OF PREPARATION

Statement of compliance

The unaudited interim consolidated financial statements for the period ended September 30, 2012, have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, using accounting policies in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

These unaudited interim financial statements do not include all of the note disclosures normally included in the annual financial statements. Accordingly, these interim financial statements are to be read in conjunction with the annual report for the year ended December 31, 2011. Full disclosures will be included in the consolidated annual financial statements.

Basis of measurement

The unaudited interim consolidated financial statements have been prepared using the historical cost basis except for financial instruments and certain items of land, buildings and building components, which were recorded at fair value upon transition to IFRS using the deemed cost exemption. The methods used to measure the values of financial instruments are discussed further in note 3.

Statement of financial position classification

The statement of financial position has been prepared using the liquidity format in which the assets and liabilities are presented broadly in order of liquidity. The assets and liabilities comprise both current and non-current amounts.

Functional and presentation currency

These consolidated interim financial statements are presented in Canadian dollars, which is the Corporation's functional currency and are rounded to the nearest thousand unless otherwise noted.

Use of estimates and judgment

The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation processes are related to the actuarial determination of the provision for unpaid claims, the deemed cost of certain items of land, buildings and building components, the valuation of accounts receivable, investments and employee future benefits.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated interim financial statements include the accounts of the Corporation and the consolidated accounts of its 100%-owned subsidiaries, SGI CANADA Insurance Services Ltd. and Coachman and its 75%-owned subsidiary, ICPEI. All inter-company accounts and transactions have been eliminated on consolidation.

Financial assets and liabilities

The measurement basis for financial assets and financial liabilities depends on whether the financial assets and liabilities have been classified as fair value through profit and loss, available for sale, held to maturity, loans and receivables, or other financial liabilities. Financial assets and liabilities classified as fair value through profit and loss are measured at fair value and changes in fair value are recognized in net income. Financial assets classified as available for sale are measured at fair value with unrealized changes in fair value recorded in other comprehensive income; however, unrealized losses considered other than temporary are recognized as a decrease to net income. Financial assets designated as held to maturity, loans and receivables, or other financial liabilities are measured at amortized cost using the effective interest method. The Corporation has no financial assets and liabilities designated as available for sale or held to maturity.

The Corporation has designated its cash and cash equivalents and investments as fair value through profit and loss. Accounts receivable are designated as loans and receivables. Accounts payable and accrued liabilities, dividend payable and premium taxes payable are designated as other financial liabilities. Unpaid claims recoverable from reinsurers, amounts due to reinsurers, and the provision for unpaid claims are exempt from the above requirement.

Investments

All investments are carried at fair value. The fair value of short-term investments is based on cost, which approximates fair value due to the immediate or short-term nature of these financial instruments. The common shares are level 1 financial assets and the fair value is determined based on quoted market values, based on the latest bid prices. The pooled equity funds are level 1 financial assets and the fair value is based on the quoted market values of the underlying investments, based on the latest bid prices. Bonds and debentures are level 2 financial assets and the fair value is based on model pricing techniques that effectively discount prospective cash flows to present value taking into consideration duration, credit quality and liquidity. The pooled mortgage fund is a level 2 financial asset and the fair value is determined based on the market values of the underlying mortgage investments, calculated by discounting scheduled cash flows through to the estimated maturity of the mortgage.

The Corporation records its investment purchases and sales on a trade-date basis, being the date when the transactions are entered into.

Investments under securities lending program

Securities lending transactions are entered into on a collateralized basis. The securities lent are not derecognized on the statement of financial position given that the risks and rewards of ownership are not transferred from the Corporation to the counterparties in the course of such transactions. The securities are reported separately on the statement of financial position on the basis that the counterparties may resell or re-pledge the securities during the time that the securities are in their possession.

Securities received from counterparties as collateral are not recorded on the statement of financial position given that the risks and rewards of ownership are not transferred from the counterparties to the Corporation in the course of such transactions.

Investment earnings

The Corporation recognizes interest, premium financing and capital lease revenue as earned, dividends when declared, pooled fund revenue when a distribution is declared, realized gains and losses on investments when the investment has been sold and unrealized gains and losses based on the changes in market value of the investments held.

Interest revenue includes amortization of any premium or discount recognized at the date of purchase of the security. Amortization is calculated using the effective interest method. Realized gains and losses represent the difference between the amounts received through the sale of investments and their respective cost base. Interest is generally receivable on a semi-annual basis.

Transaction costs are included in the acquisition cost of individual investments. Direct investment expenses, such as external custodial, investment management and investment consultant expenses, are recorded against investment earnings.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate in effect at the period end date. Revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized foreign exchange gains and/or losses arising on monetary and non-monetary investments designated as fair value through profit and loss are recognized in investment earnings. Unrealized gains and/or losses arising on translation are charged to operations in the current year. Translation gains and/or losses related to other financial assets and liabilities are charged to operations in the current year.

Premiums written

The Corporation's policies have all been classified upon inception as insurance contracts. An insurance contract is a contract that transfers significant insurance risk and, upon the occurrence of the insured event, causes the insurer to make a benefit payment to the insured party. The sale of policies generates premiums written, which are taken into income over the terms of the related policies, no longer than 12 months. Unearned premiums represent the portion of the policy premiums relating to the unexpired term of each policy.

Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of outstanding claims to the period end date. The estimate includes the cost of reported claims, and claims incurred but not reported, an estimate of adjustment expenses to be incurred on these claims and a provision for adverse deviation in accordance with Canadian Institute of Actuaries standards. The provision has been calculated including the impact of discounting using a discount rate of 2.11% (December 31, 2011 - 2.32%). The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current period.

Deferred policy acquisition costs

Premium taxes, commissions and certain underwriting and policy issuance costs are charged to expense over the terms of the insurance policies to which such costs relate, no longer than 12 months. The method followed in determining the deferred policy acquisition costs limits the amount of the deferral using a liability adequacy test. The limit is calculated as the amount recoverable from unearned premiums after giving consideration to investment income, as well as claim and adjustment expenses expected to be incurred as the premiums are earned.

Reinsurance ceded

Unpaid claims recoverable from reinsurers, reinsurers' share of unearned premiums and unearned reinsurance commissions are estimated in a manner consistent with the method used for determining the provision for unpaid claims, unearned premiums and deferred policy acquisition costs respectively.

Income taxes

The Corporation uses the asset and liability method of accounting for income taxes. Current income taxes are recognized as estimated income taxes for the current year. Deferred income tax assets and liabilities consist of temporary differences between tax and accounting bases of assets and liabilities, as well as the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. A valuation allowance is recorded against any deferred income tax asset if it is probable that the asset will not be realized.

Employees' future benefits

The Corporation provides a defined benefit pension plan and a defined contribution pension plan that provide retirement benefits for its employees.

For the defined contribution pension plan, the Corporation's obligations are limited to contributions made for current service. When made, these contributions are charged to income.

For the defined benefit plan:

i. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value, which approximates market value.

ii. Pension obligations are determined by an independent actuary using the projected unit credit method prorated on service and management's best estimate assumptions of expected plan investment performance, salary escalation, age at retirement, mortality of members and future pension indexing, based upon the consumer price index.

iii. The discount rate used to determine the accrued benefit obligation was determined by reference to market interest rates at the measurement date of high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments.

iv. Unvested past service costs from plan amendments are amortized on a straight-line basis over the period of time until they become vested. Vested past service costs are expensed immediately.

v. Actuarial gains and losses are recognized in other comprehensive income in the period in which they arise.

The Corporation provides defined benefit service recognition plans for both management and in-scope (union) employees for the purpose of providing certain retirement benefits. The cost of the plans is determined using the projected unit credit method prorated on service. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for the defined benefit pension plan. Obligations under these plans are determined annually by an independent actuary.

Cash and cash equivalents

Cash and cash equivalents consist of money market investments with a maturity of 90 days or less from the date of acquisition, and are presented net of cash on hand, less outstanding cheques.

Property and equipment

All classes of property and equipment are recorded at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the asset. In the case of land, buildings and building components, fair value upon transition to IFRS has been used as the deemed cost.

The Corporation has not incurred any borrowing costs attributable to property and equipment and therefore no borrowing costs have been capitalized.

The depreciation method, the useful lives and the residual values of the assets are reviewed at each reporting date. Repairs and maintenance are charged to the statement of operations in the period in which they have been incurred.

Depreciation is recorded in operations on a straight-line basis, commencing in the year the asset is available to be placed in service, over the estimated useful lives as follows:

Building	40 years
Building components	15-40 years
Computer hardware and other equipment	3-5 years

Building components consists of heating and cooling systems, elevators, roofs and parking lots.

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated, as of the date of the business combination, to the Corporation's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the consolidated statement of operations.

Leased assets

Leases where the Corporation does not assume substantially all of the risks and reward of ownership are classified as operating leases. The payments are expensed as they are incurred.

Future accounting policy changes

The following future changes to accounting standards will have applicability to the Corporation:

Insurance Contracts

IASB issued exposure draft ED/2010/8 Insurance Contracts (the ED) on July 30, 2010. The ED proposes a new standard on accounting for insurance contracts, which would replace IFRS 4, *Insurance Contracts*. The proposals represent the first comprehensive IFRS accounting model for insurance contracts and are expected to have a significant impact on the financial reporting of insurers. The IASB plans to issue a re-exposure document in the first half of 2013, with implementation not expected before 2016.

Financial Instruments

IFRS 9, *Financial Instruments*, was issued in November 2009 and modifies previous standard IAS 39, *Financial Instruments: Recognition and Measurement*. The new standard requires financial instruments to be measured at either fair value or amortized cost. Under the new standard, the existing categories for available for sale, held to maturity, and loans and receivables will be eliminated.

Equities will have the option to be designated as fair value through other comprehensive income, similar to the current available for sale designation; except that realized gains or losses would remain in accumulated other comprehensive income and impairment decisions would not be required. A fair value option (fair value through income, consistent with held for trading) will continue to be available on the condition that accounting mismatches are reduced.

The current standard requires adoption by January 2015, which has been deferred from the original adoption date of January 2013. While early adoption is permitted under the standard, the Office of the Superintendent of Financial Institutions (OSFI) has indicated that early adoption is not allowed. While the Corporation is not federally regulated, it generally follows OSFI's guidance in such matters.

Fair Value Measurement

In May 2011, the IASB published IFRS 13, *Fair Value Measurement*. IFRS 13 replaces the fair value measurement guidance contained in various standards with a single source of fair value measurement guidance. This standard may impact the measurement of fair value for certain assets and liabilities as well as the associated disclosures.

IFRS 13 is applicable prospectively for annual periods beginning on or after January 1, 2013. This standard is not expected to have an impact on the measurement of fair value of the Corporation's assets and liabilities; however, it may impact certain disclosures. The Corporation is in the process of assessing this impact.

4. INVESTMENTS

The carrying values of the Corporation's investments are as follows:

	September 30 2012	December 31 2011
Investments	(thousands of Canadian $)	
Short-term investments	$ 75,234	$ 66,803
Bonds and debentures	420,887	302,142
Canadian common shares	58,613	41,244
U.S. common shares	25,696	24,820
Pooled funds:		
Canadian equity	21,634	17,135
United States equity	9,670	9,203
Non-North American equity	33,530	28,359
Mortgage	27,915	27,175
	673,179	516,881
Investments under securities lending program		
Bonds and debentures	32,201	94,296
Canadian common shares	18,152	20,486
U.S. common shares	357	669
	50,710	115,451
Total investments	$ 723,889	$ 632,332

Securities lending program

Through its custodian, the Corporation participates in an investment securities lending program for the purpose of generating fee income. Non-cash collateral of at least 102% of the market value of the loaned securities is retained by the Corporation until the loaned securities have been returned. The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value of the loaned securities fluctuates. In addition, the custodian provides indemnification against any potential losses in the securities lending program. While in the possession of counterparties, the loaned securities may be resold or re-pledged by such counterparties.

At September 30, 2012, the Corporation held collateral of $53,246,000 (December 31, 2011 -$121,224,000) for the loaned securities.

Fair value hierarchy

Fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where quoted prices are readily available, representing regularly occurring transactions. The determination of fair value requires judgment and is based on market information where available and appropriate. Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of the inputs used in the valuation.

Level 1 - where quoted prices are readily available from an active market

Level 2 - valuation model not using quoted prices, but still using predominantly observable market inputs, such as market interest rates

Level 3 - models using inputs that are not based on observable market data

	September 30, 2012			December 31, 2011		
	Level 1	Level 2	Total	Level 1	Level 2	Total
	(thousands of Canadian $)					
Short-term investments	$ -	$ 75,234	$ 75,234	$ -	$ 66,803	$ 66,803
Bonds and debentures	-	453,088	453,088	-	396,438	396,438
Canadian common shares	76,765	-	76,765	61,730	-	61,730
U.S. common shares	26,053	-	26,053	25,489	-	25,489
Pooled funds:						
Canadian equity	21,634	-	21,634	17,135	-	17,135
United States equity	9,670	-	9,670	9,203	-	9,203
Non-North American equity	33,530	-	33,530	28,359	-	28,359
Mortgage	-	27,915	27,915	-	27,175	27,175
	$ 167,652	$ 556,237	$ 723,889	$ 141,916	$ 490,416	$ 632,332

5. INVESTMENT EARNINGS (LOSS)

The components of investment earnings (loss) are as follows:

	three months to September 30		nine months to September 30	
	2012	2011	2012	2011
	(thousands of Canadian $)			
Net unrealized gain (loss) on change in market value of investments	$ 7,543	$ (19,579)	$ 11,652	$ (23,352)
Interest	2,780	2,719	8,197	8,383
Premium financing	1,437	1,301	4,280	3,835
Pooled fund distributions	659	763	1,848	1,803
Dividends	583	448	1,660	1,262
Net realized gain on sale of investments	1,751	2,208	1,512	9,647
Interest on net investment in capital lease	–	–	–	51
Total investment earnings (loss)	14,753	(12,140)	29,149	1,629
Investment expenses	(310)	(216)	(880)	(668)
Net investment earnings (loss)	$ 14,443	$ (12,356)	$ 28,269	$ 961

6. INSURANCE AND FINANCIAL RISK MANAGEMENT

Insurance risk arises with respect to the adequacy of the Corporation's insurance premium rates and provision for unpaid claims (consisting of underwriting and actuarial risks). The nature of insurance operations also results in significant financial risks, as the Corporation's statement of financial position consists primarily of financial instruments. The financial risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Insurance risk

Underwriting risk

The Corporation manages its insurance risk through its underwriting and reinsurance strategies within an overall strategic planning process. Pricing is based on assumptions with regards to past experiences and trends. Exposures are managed by having documented underwriting limits and criteria, product and geographic diversification, and reinsurance.

Diversification

The Corporation writes property, liability and motor risks over a 12-month period. The most significant risks arise from weather-related events, such as severe summer storms. The Corporation attempts to mitigate risk by conducting business in a number of provinces across Canada and by offering different lines of insurance products.

The concentration of insurance risk by line of business is summarized below by reference to unpaid claims liabilities:

	Gross		Reinsurance Recoverable		Net	
	September 30 2012	December 31 2011	September 30 2012	December 31 2011	September 30 2012	December 31 2011
	(thousands of Canadian $)					
Automobile	$ 185,348	$ 176,325	$ 16,823	$ 19,474	$ 168,525	$ 156,851
Property	106,266	104,503	21,117	30,602	85,149	73,901
Liability	65,371	66,986	4,332	2,702	61,039	64,284
Assumed	7,765	7,735	-	-	7,765	7,735
Discount	13,751	13,458	2,660	1,822	11,091	11,636
Facility Association	6,000	5,052	-	-	6,000	5,052
Total	$ 384,501	$ 374,059	$ 44,932	$ 54,600	$ 339,569	$ 319,459

The concentration of insurance risk by location is summarized below by reference to unpaid claims liabilities:

	Gross		Reinsurance Recoverable		Net	
	September 30 2012	December 31 2011	September 30 2012	December 31 2011	September 30 2012	December 31 2011
	(thousands of Canadian $)					
Alberta	$ 33,794	$ 32,458	$ 5,510	$ 8,802	$ 28,284	$ 23,656
Saskatchewan	209,255	207,591	21,328	26,464	187,927	181,127
Manitoba	8,292	8,646	773	155	7,519	8,491
Ontario	113,106	106,501	16,608	18,906	96,498	87,595
Maritimes	20,054	18,863	713	273	19,341	18,590
Total	$ 384,501	$ 374,059	$ 44,932	$ 54,600	$ 339,569	$ 319,459

Reinsurance

The Corporation also seeks to reduce losses that may arise from catastrophes or other events that cause unfavourable underwriting results by reinsuring certain levels of risk with other insurers. The policy of underwriting and reinsuring contracts of insurance limits the liability of the Corporation to a maximum amount on any one loss as follows:

	2012	2011
	(thousands of Canadian $)	
Dwelling and farm property	$ 750	$ 750
Unlicensed vehicles	750	750
Commercial property	1,000	1,000
Automobile and general liability	1,500	1,500
(subject to filling an annual aggregate deductible of)	1,500	1,500
Property catastrophe (health care)	7,500	7,500
Property catastrophe (non-health care)	10,000	8,500

The Corporation evaluates and monitors the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvency.

Actuarial risk

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Corporation at the period end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists regarding the cost of reported claims that have not been settled, as all the necessary information may not be available at the period end date.

The significant assumptions used to estimate the provision include: the Corporation's experience with similar cases, historical claim payment trends and claim development patterns, the characteristics of each class of business, claim severity and claim frequency, the effect of inflation on future claim settlement costs, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim, the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as physical damage or collision claims tend to be more reasonably predictable than long-tail claims such as liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors, which necessarily involves risk that actual results may differ materially from the estimates.

Financial risk

The nature of the Corporation's operations results in a statement of financial position that consists primarily of financial instruments. The risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Significant financial risks are related to the Corporation's investments. These financial risks are managed by having a Statement of Investment Policies and Goals (SIP&G), which is approved annually by the SGI Board of Directors, based on a recommendation from the Investment Committee of the Board. The SIP&G provides guidelines to the investment manager for the asset mix of the portfolio regarding quality and quantity of debt and equity investments using a prudent person approach. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. SGI receives regular reporting from the investment manager and custodian regarding compliance with the SIP&G. The investment manager's performance is evaluated based on return objectives, including realized and unrealized capital gains and losses plus income from all sources, and goals stated in the SIP&G.

Credit risk

The Corporation's credit risk arises primarily from two distinct sources: accounts receivable (from its customers, brokers and reinsurers) and certain investments. The maximum credit risk to which it is exposed is limited to the carrying value of the financial assets summarized as follows:

	September 30 2012	December 31 2011
	Carrying Value	
	(thousands of Canadian $)	
Cash and cash equivalents	$ 17,723	$ 39,365
Accounts receivable	152,477	145,250
Fixed income investments [1]	556,237	490,416
Unpaid claims recoverable from reinsurers	44,932	54,600

[1] Includes short-term investments, bonds and debentures, and the mortgage pooled fund

Cash and cash equivalents include money market investments of $26,803,000 less bank overdraft, net of outstanding cheques of $9,080,000 (2011 - money market investments of $46,609,000 less bank overdraft, net of outstanding cheques of $7,244,000). The money market investments mature within 90 days from the date of acquisition and have a credit rating of R-1.

Accounts receivable are primarily from customers, diversified among residential, farm and commercial, along with amounts from brokers across the provinces that the Corporation operates in. Accounts receivable consist of balances outstanding for one year or less.

	September 30 2012	December 31 2011
	(thousands of Canadian $)	
Current	$ 151,579	$ 143,570
30-59 days	725	861
60-89 days	388	458
Greater than 90 days	5,411	5,487
Subtotal	158,103	150,376
Allowance for doubtful accounts	(5,626)	(5,126)
Total	$ 152,477	$ 145,250

Provisions for credit losses are maintained in an allowance account and are regularly reviewed by the Corporation. Amounts are written off once reasonable collection efforts have been exhausted. Details of the allowance account are as follows:

	nine months ended September 30 2012	twelve months ended December 31 2011
	(thousands of Canadian $)	
Allowance for doubtful accounts, opening balance	$ 5,126	$ 5,113
Accounts written off	(1,332)	(1,855)
Current period provision	1,832	1,868
Allowance for doubtful accounts, ending balance	$ 5,626	$ 5,126

Credit risk within investments is related primarily to short-term investments, bonds and debentures, and the mortgage pooled fund. It is managed through the investment policy that limits debt instruments to those of high credit quality (minimum rating for bonds and debentures is BBB, and for short-term investments is R-1) along with limits to the maximum notional amount of exposure with respect to any one issuer.

Credit ratings for the bond and debenture investments are as follows:

	September 30, 2012		December 31, 2011	
Credit Rating	Fair Value	Makeup of Portfolio	Fair Value	Makeup of Portfolio
	(thousands of Canadian $)			
AAA	$ 215,480	47.6%	$ 208,283	52.5%
AA	116,018	25.6%	97,891	24.7%
A	99,144	21.9%	67,971	17.2%
BBB	22,446	4.9%	22,293	5.6%
Total	$ 453,088	100.0%	$ 396,438	100.0%

Within bond and debentures, there are no holdings from one issuer, other than the Government of Canada or a Canadian province, over 10% of the market value of the combined bond and short-term investment portfolios. No one holding of a province is over 20% of the market value of the bond portfolio.

The unit value of the mortgage pooled fund is impacted by the credit risk of the underlying mortgages. This risk is limited by restrictions within its own investment policy, which include single loan limits and diversification by property type and geographic regions within Canada.

Credit risk associated with reinsurers is managed through regular monitoring of credit ratings of the reinsurers utilized by the Corporation. Reinsurers' credit ratings range from AA+ to A- based on the most recent ratings by AM Best.

Market risk

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk primarily impacts the value of investments.

Interest rate risk

The Corporation is exposed to changes in interest rates in its fixed income investments, including short-term investments, bonds and debentures and the mortgage pooled fund. Changes in interest rates also impact the provision for unpaid claims and unpaid claims recoverable from reinsurers. The impact that a change in interest rates has on investment income will be partially offset by the impact the change in interest rates has on discounting of claims incurred.

It is estimated that a 100 basis point increase/decrease in interest rates would have the following impact:

	100 basis point increase		100 basis point decrease	
	September 30 2012	December 31 2011	September 30 2012	December 31 2011
	(thousands of Canadian $)			
Investment earnings	$ (11,217)	$ (9,984)	$ 11,217	$ 9,984
Claims incurred	(8,401)	(8,643)	8,401	8,643
Net income (loss)	(2,816)	(1,341)	2,816	1,341

Foreign exchange risk

The Corporation is subject to changes in the U.S./Canadian dollar exchange rate on its U.S. equity investments, purchases of goods and services that are denominated in U.S. dollars, and a portion of claims and reinsurance receivables and payables denominated in U.S. dollars. Also, the Corporation is exposed to EAFE (Europe, Australasia and Far East) currencies through its investment in the non-North American pooled fund. Exposure to both U.S. equities and non-North American equities is limited to a maximum 7% each of the market value of the total investment portfolio. At September 30, 2012, the Corporation's exposure to U.S. equities was 4.9% (December 31, 2011 - 5.5%) and its exposure to non-North American equities was 4.6% (December 31, 2011 - 4.5%).

At September 30, 2012, a 10% appreciation/depreciation in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a $3.6 million (December 31, 2011 - $3.5 million) decrease/increase in net income and retained earnings. A 10% appreciation/depreciation in the Canadian dollar versus the EAFE currencies would result in approximately a $3.4 million (December 31, 2011 - $2.8 million) decrease/increase in net income and retained earnings. As common shares, the U.S. equity pooled fund and the non-North American equity pooled fund are classified as fair value through profit and loss, any unrealized changes due to foreign currency are recorded in net income.

There is no exposure to foreign exchange risk within the Corporation's bond and debenture portfolio. As well, no more than 10% of the market value of the bond portfolio shall be invested in bonds of foreign issuers.

The Corporation's exposure to exchange rate risk resulting from the purchase of goods and services, and claims and reinsurance receivables and payables, is not considered material to the operations of the Corporation.

Equity prices

The Corporation is exposed to changes in equity prices in Canadian, U.S. and EAFE markets. Equities comprise 23.2% (December 31, 2011 - 22.4%) of the carrying value of the Corporation's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. No one investee or related group of investees represents greater than 10% of the market value of the Corporation's common share portfolio. As well, no one holding represents more than 10% of the voting shares of any corporation.

The Corporation's equity price risk is assessed using Value at Risk (VaR), a statistical technique that measures the potential change in the value of an asset class. The VaR has been calculated based on volatility over a four-year period, using a 95% confidence level. As such, it is expected that the annual change in the portfolio market value will fall within the range outlined in the following table 95% of the time (19 times out of 20 years).

Asset class	September 30 2012	December 31 2011
	(thousands of Canadian $)	
Canadian pooled equity fund and Canadian common shares	$ +/- 38,966	$ +/- 31,862
U.S. pooled equity fund and U.S. common shares	+/- 9,645	+/- 9,367
Non-North American pooled equity fund	+/- 12,138	+/- 10,096

The Corporation's equity investments are classified as fair value through profit and loss and as such, any unrealized changes in their fair value are recorded in the statement of operations.

Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows. The majority of financial liabilities, excluding certain unpaid claims liabilities, are short-term in nature, due within one year. The Corporation generally maintains positive overall cash flows through cash generated from operations, as well as cash generated from its investing activities.

7. CAPITAL MANAGEMENT

The Corporation's primary objectives when managing capital are to ensure adequate funding is available to pay policyholder claims, be flexible in its product offerings and support its growth strategies, while providing an adequate return to its shareholder. Its main sources of capital are retained earnings and cash injections in the form of equity advances from its parent, CIC. There were no changes to the Corporation's capital structure during the period.

The Corporation uses a common industry measurement, the Minimum Capital Test (MCT), to monitor its capital adequacy. The MCT is a risk-based capital adequacy formula that assesses risks to assets, policy liabilities and off balance sheet exposures by applying various factors to determine a ratio of capital available over capital required.

SGI CANADA is not a regulated insurer; however, its subsidiaries, SGI CANADA Insurance Services Ltd., Coachman Insurance Company and the Insurance Company of Prince Edward Island, are subject to rate regulation related to their automobile premiums. Regulators require insurers to maintain a level of capital sufficient to achieve an MCT of 150% or higher based on the risk profile of the insurer and its business. At September 30, 2012, the Corporation's MCT was 268% (December 31, 2011 - 222%). There have been no changes to the Corporation's capital management processes and measures since the prior year end.

8. CHANGE IN NON-CASH OPERATING ITEMS

The change in non-cash operating items is comprised of the following:

	three months to September 30		nine months to September 30	
	2012	2011	2012	2011
	(thousands of Canadian $)			
Accounts receivable	$ (5,238)	$ (1,466)	$ (7,227)	$ (6,952)
Unpaid claims recoverable from reinsurers	1,022	(3,642)	9,668	(13,304)
Reinsurers' share of unearned premiums	(1,257)	699	(5,870)	(5,991)
Deferred policy acquisition costs	(2,653)	(3,460)	(3,140)	(3,445)
Other assets	303	852	(388)	579
Accounts payable and accrued liabilities	13,362	10,163	10,206	5,247
Premium taxes payable	5,477	5,421	(4,754)	(3,767)
Amounts due to reinsurers	475	(1,026)	103	3,434
Unearned reinsurance commissions	280	97	99	79
Unearned premiums	10,156	11,671	8,272	21,712
Provision for unpaid claims	12,898	44,396	10,442	72,876
	$ 34,825	$ 63,705	$ 17,411	$ 70,468

9. EMPLOYEE SALARIES AND BENEFITS

The Corporation incurs salaries costs, retirement benefit costs associated with its defined benefit pension plan, defined contribution plan and its defined benefit service recognition plans and other benefits costs. The Corporation allocates a portion of these costs to the Saskatchewan Auto Fund for those employees of the Corporation who provide service to it based on a cost allocation framework. These amounts have been disclosed separately in this note.

The Corporation allocates expenses incurred to the various operating functions. The Corporation includes employee salaries and benefits in the claims incurred and administrative expense lines on the consolidated statement of operations.

The total salary and benefits expenses incurred during the year are as follows:

	three months to September 30		nine months to September 30	
	2012	2011	2012	2011
	(thousands of Canadian $)			
Salaries	$ 29,607	$ 28,658	$ 85,445	$ 82,029
Defined contribution pension plan	1,655	1,667	4,908	4,621
Defined benefit pension plan	(56)	(37)	(164)	(112)
Defined benefit service recognition plans	360	567	1,083	1,702
Other benefits	3,186	2,658	11,288	10,366
Total salaries and benefits	34,752	33,513	102,560	98,606
Less: Allocation to Saskatchewan Auto Fund	(21,494)	(21,177)	(63,433)	(62,036)
Salaries and benefits incurred in SGI CANADA	$ 13,258	$ 12,336	$ 39,127	$ 36,570

Defined contribution pension plan

The Corporation has employees who are members of the Capital Pension Plan, which is a defined contribution pension plan. The Corporation's financial obligation is limited to matching employee contributions of 5.75% to the plan.

Defined benefit pension plan

The Corporation has a defined benefit pension plan for certain of its employees that has been closed to new membership since 1980. Current service costs of this plan are charged to operations on the basis of actuarial valuations, the most recent valuation being as of December 31, 2010. The next valuation is anticipated to have a valuation date of December 31, 2013.

Pension income for the defined benefit pension plan is as follows:

	three months to September 30		nine months to September 30	
	2012	2011	2012	2011
	(thousands of Canadian $)			
Current service cost	$ 17	$ 22	$ 53	$ 66
Interest cost	376	428	1,129	1,285
Expected return on pension plan assets	(449)	(487)	(1,346)	(1,463)
Pension income	$ (56)	$ (37)	$ (164)	$ (112)

Defined benefit service recognition plans

Pension expense for the defined benefit service recognition plan is as follows:

	three months to September 30		nine months to September 30	
	2012	2011	2012	2011
	(thousands of Canadian $)			
Current service cost	$ 41	$ 229	$ 124	$ 687
Interest cost	172	191	516	572
Amortization of plan changes and past service costs	147	147	443	443
Pension expense	$ 360	$ 567	$ 1,083	$ 1,702

Actuarial losses recognized in other comprehensive loss

Other comprehensive loss results from changes to actuarial assumptions used to calculate the liabilities of the employee benefit plans and differences in the actual return on employee benefit plan assets versus estimated returns on these assets. The discount rate is the only key assumption that changed during the period, as follows:

Discount Rate	Defined Benefit Pension Plan	Defined Benefit Service Recognition Plans
September 30, 2010	4.70%	4.10% - 4.40%
December 31, 2010	4.90%	4.30% - 4.50%
September 30, 2011	4.40%	3.80% - 4.00%
December 31, 2011	4.20%	3.70% - 3.80%
September 30, 2012	3.70%	3.30% - 3.40%

Actuarial losses recognized in other comprehensive loss are as follows:

	2012	2011
	(thousands of Canadian $)	
Cumulative actuarial losses, January 1	$ 6,309	$ 5,406
Recognized during the second quarter	1,075	248
Recognized during the third quarter	682	4,066
Cumulative actuarial losses, September 30	$ 8,066	$ 9,720

Allocation to Saskatchewan Auto Fund

The Corporation incurs retirement benefit costs associated with its defined benefit pension plan, defined contribution plan and its defined benefit service recognition plans. The Corporation allocates a portion of these costs to the Saskatchewan Auto Fund for those employees of the Corporation who provide service to it. These amounts are recovered by the Corporation as part of its cost allocation process.

Key management personnel

Key management personnel are those persons having authority over the planning, directing and controlling activities of the company, and include Board members, President and Chief Executive Officer, and Vice-Presidents of the Corporation. Key management personnel compensation is comprised of:

	three months ended September 30		nine months ended September 30	
	2012	2011	2012	2011
	(thousands of Canadian $)			
Salaries and benefits	$ 685	$ 678	$ 2,553	$ 2,608
Post-employment benefits	10	8	29	24
Contributions to defined contribution plan	61	60	183	183
	$ 756	$ 746	$ 2,765	$ 2,815

10. FACILITY ASSOCIATION PARTICIPATION

Through its subsidiaries, the Corporation is a participant in automobile residual market and risk-sharing pools, whereby companies in the industry are required by regulation to provide automobile insurance coverage to high-risk insureds.

Facility Association transactions recorded in the Corporation's financial results are as follows:

	three months to September 30		nine months to September 30	
	2012	2011	2012	2011
	(thousands of Canadian $)			
Gross premiums written	$ 957	$ 2,308	$ 3,936	$ 3,996
Net premiums earned	$ 1,035	$ 1,927	$ 3,613	$ 3,471
Claims incurred	639	1,330	2,786	2,640
Commissions	(14)	101	194	209
Premium taxes	33	61	113	109
Administrative expenses	248	493	863	869
Total claims and expenses	906	1,985	3,956	3,827
Underwriting profit (loss)	129	(58)	(343)	(356)
Investment earnings	32	8	70	78
Net income (loss)	$ 161	$ (50)	$ (273)	$ (278)

11. SEGMENTED INFORMATION

The Corporation provides property and casualty insurance through operating segments located across Canada: Saskatchewan, Manitoba and Alberta, Ontario and the Maritimes (where Maritimes represents Prince Edward Island, New Brunswick and Nova Scotia). These operating segments correspond with the geographical regions in which SGI CANADA operates. The performance of each operating segment is reported separately to the Corporation's Board of Directors.

The product offerings vary across the segments, but all products offered are considered property and casualty insurance.

three months to September 30, 2012	Saskatchewan	Manitoba and Alberta	Ontario	Maritimes	Total
			(thousands of Canadian $)		
Net premiums written	$ 94,045	$ 17,219	$ 12,937	$ 6,238	$ 130,439
Net premiums earned	86,789	14,198	14,828	5,725	121,540
Claims incurred	51,461	11,580	9,298	3,338	75,677
Other expenses	33,767	4,791	3,950	1,820	44,328
Underwriting profit	1,561	(2,173)	1,580	567	1,535
Investment earnings	10,275	1,470	2,306	392	14,443
Income (loss) before the following:	11,836	(703)	3,886	959	15,978
Income tax expense (recovery)	–	(169)	1,020	276	1,127
Net income (loss)	$ 11,836	$ (534)	$ 2,866	$ 683	$ 14,851

three months to September 30, 2011	Saskatchewan	Manitoba and Alberta	Ontario	Maritimes	Total
			(thousands of Canadian $)		
Net premiums written	$ 91,076	$ 14,949	$ 14,865	$ 5,992	$ 126,882
Net premiums earned	82,136	12,426	14,579	5,371	114,512
Claims incurred	76,979	9,865	11,317	4,043	102,204
Other expenses	32,293	4,179	3,062	1,944	41,478
Underwriting profit (loss)	(27,136)	(1,618)	200	(616)	(29,170)
Investment earnings (loss)	(10,869)	(1,197)	(339)	49	(12,356)
Loss before the following:	(38,005)	(2,815)	(139)	(567)	(41,526)
Income tax recovery	–	(771)	(39)	(173)	(983)
Net loss	$ (38,005)	$ (2,044)	$ (100)	$ (394)	$ (40,543)

nine months to September 30, 2012	Saskatchewan	Manitoba and Alberta	Ontario	Maritimes	Consolidation Adjustments	Total
			(thousands of Canadian $)			
Net premiums written	$ 259,027	$ 43,718	$ 40,714	$ 17,479	$ –	$ 360,938
Net premiums earned	256,769	40,602	44,560	16,605	–	358,536
Claims incurred	132,753	24,043	26,463	8,606	–	191,865
Other expenses	100,224	13,744	11,584	6,033	–	131,585
Underwriting profit	23,792	2,815	6,513	1,966	–	35,086
Investment earnings	19,515	2,765	5,194	795	–	28,269
Income before the following:	43,307	5,580	11,707	2,761	–	63,355
Income tax expense	–	1,451	3,073	794	–	5,318
Net income	$ 43,307	$ 4,129	$ 8,634	$ 1,967	$ –	$ 58,037
Total assets	$ 697,963	$ 144,737	$ 206,289	$ 53,083	$ (44,558)	$ 1,057,514
Total liabilities	$ 503,049	$ 103,358	$ 153,491	$ 39,841	$ (44,558)	$ 755,181
Province of Saskatchewan's equity	$ 194,914	$ 41,860	$ 52,798	$ 12,761	$ (2,829)	$ 299,504

nine months to September 30, 2011	Saskatchewan	Manitoba and Alberta	Ontario	Maritimes	Consolidation Adjustments	Total
			(thousands of Canadian $)			
Net premiums written	$ 246,310	$ 37,175	$ 46,889	$ 16,250	$ –	$ 346,624
Net premiums earned	240,171	35,580	39,618	15,534	–	330,903
Claims incurred	165,016	27,207	30,270	11,727	–	234,220
Other expenses	93,899	12,247	11,571	5,494	–	123,211
Underwriting loss	(18,744)	(3,874)	(2,223)	(1,687)	–	(26,528)
Investment earnings (loss)	(1,945)	47	2,278	581	–	961
Income (loss) before the following:	(20,689)	(3,827)	55	(1,106)	–	(25,567)
Income taxes (recovery)	–	(1,053)	16	(338)	–	(1,375)
Net income (loss)	$ (20,689)	$ (2,774)	$ 39	$ (768)	$ –	$ (24,192)
Total assets	$ 636,278	$ 129,978	$ 178,580	$ 47,859	$ (39,357)	$ 953,338
Total liabilities	$ 508,436	$ 93,939	$ 137,403	$ 37,046	$ (39,357)	$ 737,467
Province of Saskatchewan's equity	$ 127,841	$ 36,521	$ 41,177	$ 10,332	$ (2,225)	$ 213,646